

CITY OF TEA

AUDIT REPORT

DECEMBER 31, 2009

**CITY OF TEA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Tea
Tea, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, as December 31, 2009, and for each of the years in the biennial period then ended, and have issued my report thereon dated May 12, 2010. A disclaimer of opinion for the aggregate discretely presented component unit was issued due to the financial statements including unaudited financial information for the Tea Housing and Redevelopment Commission.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tea's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying "Schedule of Current Audit Finding and Questioned Costs", I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

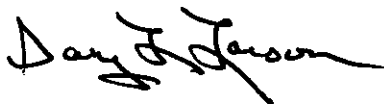
I consider the deficiency described in the Schedule of Current Audit Findings and Questioned Costs as item number 2009-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. See item number 2009-02 in the accompany Schedule of Findings and Questioned Costs.

The City of Tea's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the City's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Tea, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11, this report is a matter of public record and its distribution is not limited.



May 12, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Tea
Tea, South Dakota

Compliance:

I have audited the compliance of the City of Tea, South Dakota with types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for each of the years in the biennial period ended December 31, 2009. Tea's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tea's management. My responsibility is to express an opinion on Tea's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tea's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Tea's compliance with those requirements.

In my opinion, the City of Tea complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for each of the years in the biennial period ended December 31, 2009.

Internal Control over Compliance

The management of the City of Tea is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Tea's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Tea's internal control over compliance.

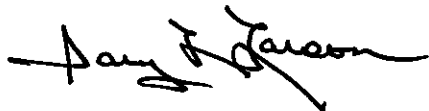
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects that entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2009-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questions Costs, I consider item number 2009-03 to be a material weakness.

The City of Tea's response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the City's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of the City of Tea and is not intended to be and should not be used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary J. Larson". The signature is fluid and cursive, with a long horizontal stroke at the end.

May 12, 2010

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Tea
Tea, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, as of December 31, 2009, and for each of the years in the biennial period then ended, which, except as noted below, collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Tea's management. My responsibility is to express opinions on these financial statements based on my audit.

The financial statements of the Tea Housing and Redevelopment Commission have not been audited, and I was not engaged to audit the Tea Housing and Redevelopment Commission's financial statements as part of my audit of the City's basic financial statements. The Tea Housing and Redevelopment Commission's unaudited financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 100 percent of the assets, net assets, revenues and expenses of the City's aggregate discretely presented component unit opinion unit.

Because I was not engaged to audit, and did not audit the Tea Housing and Redevelopment Commission's financial statements, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the aggregate discretely presented component unit opinion unit of the City of Tea, South Dakota, as of December 31, 2009 and for each of the years in the biennial period then ended.

Except as indicated above, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tea, South Dakota, at December 31, 2009, the respective changes in financial position and cash flows where applicable thereof for each of the years in the biennial period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated May 12, 2010 on my consideration of the City of Tea's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 9 through 27 and 81 through 89 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and

MUNICIPALITY OF TEA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Municipality of Tea's financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ended on December 31, 2009. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the Municipality's revenues exceeded expenditures by \$1,092,049, mainly due to an increase in sales tax, capital grants and contributions and the increase in property valuation which allows the Municipality the ability to increase the amount of revenue generated from property taxes.
- The total cost of the Municipality's expenses decreased 4% due to less capital improvement projects.
- The general fund reported a \$543,901 current year surplus primarily due to advanced special road assessments paid and expenses budgeted in the general fund but paid for in a capital project fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Municipality's financial statements, including the portion of the Municipal government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the Municipality of Tea's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems	Funds held for others, Special Assessments
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	Statement of Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resource focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	None

Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality's net assets and how they have changed. Net assets – the difference between the Municipality's assets and liabilities – is one way to measure the Municipality's financial health or position.

- Increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional nonfinancial factors such as changes in the Municipality's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in three categories:

- **Governmental Activities** -- This category includes the most of the Municipality's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here.

- Component Units -- The Municipality includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this “component unit” is important because the Municipality is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has three kinds of funds:

- Governmental Funds – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary Funds – These are mainly cash held for citizens as a result of special assessments on their property. The funds will be used for repaying bonds issued to raise money for the improvements (mainly curb, gutter and asphalt) to the citizen's property.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Municipality's combined net assets increased by 10% between fiscal year 2008 and 2009 – increasing by \$1,092,049 (See table A-1).

Table A-1 Municipality of Tea Statement of Net Assets						
	Governmental Activities		Business-Type Activities		TOTAL	
	2008	2009	2008	2009	2008	2009
Current and Other Assets	\$ 2,297,821	\$ 2,910,415	\$ 1,620,721	\$ 1,405,559	\$ 3,918,542	\$ 4,315,974
Capital Assets	6,423,779	6,550,298	7,650,818	7,944,639	14,074,597	14,494,938
Total Assets	8,721,601	9,460,714	9,271,539	9,350,198	17,993,139	18,810,912
Long-Term Debt Outstanding	2,298,033	2,100,599	4,574,372	4,756,554	6,872,405	6,857,153
Other Liabilities	66,568	114,724	370,900	63,720	437,469	178,444
Total Liabilities	2,364,601	2,215,323	4,945,272	4,820,274	7,309,874	7,035,597
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	4,125,746	4,449,699	3,076,446	3,188,086	7,202,192	7,637,785
Restricted	656,981	391,520	364,581	423,584	1,021,562	815,104
Unrestricted	1,574,273	2,404,171	885,239	918,254	2,459,512	3,322,426
Total Net Assets	\$ 6,356,999	\$ 7,245,390	\$ 4,326,266	\$ 4,529,924	\$ 10,683,266	\$ 11,775,315
Adjusted Net Assets - Beginning	5,361,141	6,356,999	3,913,071	4,326,266	9,274,212	10,683,265
Increase (Decrease) in Net Assets	995,858	888,391	413,195	203,658	1,409,054	1,092,049
Percentage of Increase (Decrease)						
in Net Assets	19%	14%	11%	5%	15%	10%

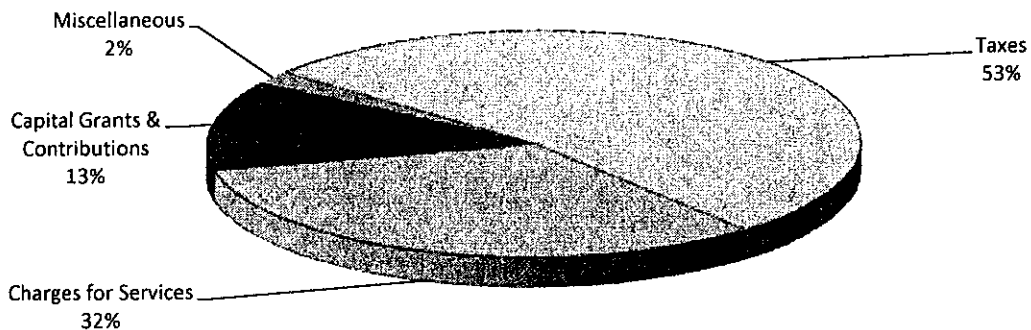
The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the Municipality, consisting of General Obligation Bonds payable, sales tax revenue bonds payable, and water and sewer revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the Municipality's assets and liabilities is its net assets.

Changes in Net Assets

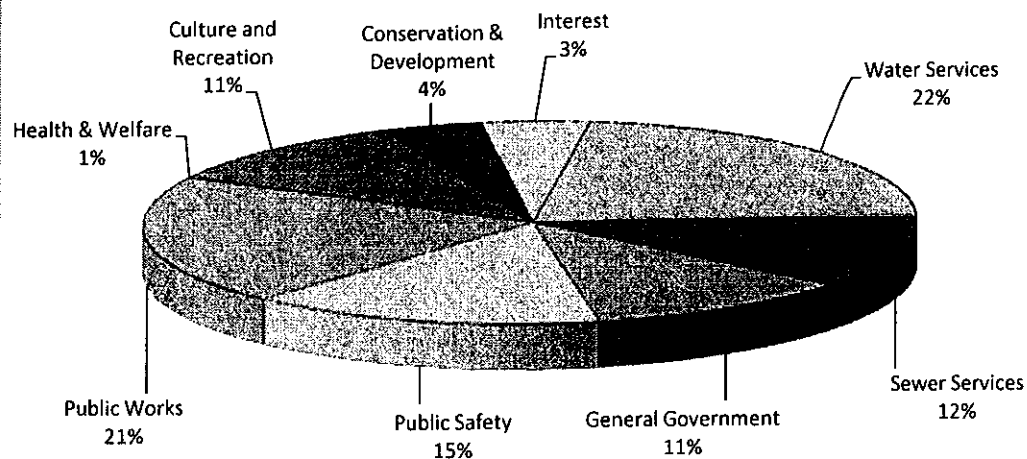
The Municipality's revenues totaled \$3,510,577. (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes, with 32 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 53 cents of every dollar raised comes from some type of tax. (See Figure A-2). The rest comes from state-shared revenues, operating grants and contributions and interest earnings.

The total cost of all programs and services decreased 5%. The Municipality's expenses cover a range of services, with almost half related to public work services (road maintenance, water system services and sewer system services). (See Figure A-3)

**Figure A-2, Municipality of Tea, Sources of Revenues
for Calendar Year 2009**



**Figure A-3, Municipality of Tea, Functional
Expenses for Calendar Year 2009**



Governmental Activities

Table A-2 and the narrative that follow considers the operations of the governmental activities.

Total revenues for the Municipality of Tea for 2009 were \$3,510,577 while total expenses were \$2,418,528.

Table A-2 Municipality of Tea Changes in Net Assets						
	Total Governmental Activities		Total Business-Type Activities		Total	
	2008	2009	2008	2009	2008	2009
Revenues						
Program Revenues:						
Charges for Services	\$ 622,891	\$ 205,506	\$ 902,383	\$ 925,822	\$ 1,525,275	\$ 1,131,328
Operating Grants	1,485	15,787	-	-	1,485	15,787
Capital Grants & Contributions	378,173	348,866	179,853	89,505	558,026	438,371
General Revenues:						
Taxes	1,757,219	1,835,257			1,757,219	1,835,257
Revenue State Sources	11,886	11,746			11,886	11,746
Unrestricted Investment Earnings	28,436	7,464	20,700	4,404	49,136	11,868
Miscellaneous	46,368	66,220			46,368	66,220
Speccial Items						-
Total Revenues	2,846,458	2,490,847	1,102,936	1,019,731	3,949,394	3,510,577
Expenses						
General Government	306,777	268,757			306,777	268,757
Public Safety	329,355	359,120			329,355	359,120
Public Works	737,606	503,038			737,606	503,038
Health & Welfare	5,125	1,934			5,125	1,934
Culture and Recreation	246,962	259,854			246,962	259,854
Conservation and Development	85,211	100,347			85,211	100,347
Interest	139,563	109,406			139,563	109,406
Water Services			452,720	532,703	452,720	532,703
Sewer Services			237,021	283,370	237,021	283,370
Total Expenses	1,850,600	1,602,455	689,741	816,073	2,540,340	2,418,528
Excess (Deficiency) Before Transfers	995,858	888,391	413,195	203,658	1,409,054	1,092,049
Transfers						
Increase (Decrease) in Net Assets	995,858	888,391	413,195	203,658	1,409,054	1,092,049
Adjusted Beginning Net Assets	5,361,141	6,356,999	3,913,071	4,326,266	7,707,841	10,683,266
ENDING NET ASSETS	\$ 6,356,999	\$ 7,245,390	\$ 4,326,266	\$ 4,529,924	\$ 9,116,895	\$ 11,775,315

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above.

The Municipality maintained one major governmental fund:

- General Fund

and only two major business type funds:

- Water
- Sewer

The Municipality also has other governmental funds:

- Special Park Fund
- 3RD Penny Sales Tax (Liquor, Lodging and Dining Sales Tax Fund)
- 2ND Penny Sales Tax
- Storm Drainage II
- St. Maintenance Repair Fund
- Storm Drainage
- Aquatic Complex Debt Service Fund
- Sidewalk Project Capital Project
- 272ND St. Improvement Capital Project
- Athletic Complex Project Fund
- Highway 111 Improvement Project fund

The General Fund increased by \$543,901.03 or 48%. The main reason for the increase in revenues is due to an increase in the property tax base, which resulted in an increase in property tax revenue. The Municipality also budgeted expenses in the general fund that were paid for out of Capital Project Funds.

The Water Fund increased net assets by \$143,132.45. This was primarily due to good management. The Sewer Fund gained \$60,525.28 for the same reasons.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council revised the Municipal budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

The following were significant budget changes during the year for the General Fund:

- Streets increased \$58,500 due to more repairs needed
- Several budget categories were significantly under spent due to cost cutting measures implemented

CAPITAL ASSET ADMINISTRATION

The Municipality of Tea's investment in capital assets for its governmental and business-type activities as of December 31, 2009, amounts to \$14,494,938 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and intangible assets (future option to purchase water) and roads. The total increase in the Municipality of Tea's investment in capital assets for the current year was 3% (See Table A-3.).

Table A-3
Municipality of Tea - Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		TOTAL	
	2008	2009	2008	2009	2008	2009
Land	\$ 557,229	\$ 673,214	\$ 45,827	\$ 45,827	\$ 603,056	\$ 719,041
Construction in Progress	-	108,064	819,634	-	819,634	108,064
Buildings	3,293,023	3,230,478	39,015	37,500	3,332,038	3,267,977
Improvements Other Than Buildings	2,021,360	1,953,445	3,897,902	4,972,806	5,919,263	6,926,251
Machinery and Equipment	552,167	585,098	41,793	34,043	593,961	619,140
Intangible Asset			2,806,647	2,854,464	2,806,647	2,854,464
Total Capital Assets (Net)	\$ 6,423,779	\$ 6,550,298	\$ 7,650,818	\$ 7,944,640	\$ 14,074,598	\$ 14,494,938

This year's major capital asset additions and deletions included:

- Purchase of the following equipment:
 - Dodge Charger police car
 - Trade in/purchase of new Volvo pay loader
 - Tenco Plow
 - Northern Truck deicers
 - Farris mower
 - Park pond fountains
- Contribution towards a garage for the Tea Area Historical Society
- Land for the future sports complex

LONG-TERM DEBT

At the year-end the Municipality had \$6,857,153 in General Obligation Bonds, Sales Tax Revenue Bonds,

Table A-4
Municipality of Tea - Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		TOTAL	
	2008	2009	2008	2009	2008	2009
General Obligation Bonds	\$ 979,777	\$ 888,214	\$ -	\$ -	\$ 979,777	\$ 888,214
Revenue Bonds	1,318,256	1,212,385			1,318,256.41	1,212,384.64
Water Revenue Bond			3,223,572	3,475,873	3,223,572.27	3,475,873.21
Sewer Revenue Bond			1,350,800	1,280,681	1,350,799.54	1,280,680.54
Total Outstanding Debt and Obligations	\$ 2,298,033	\$ 2,100,599	\$ 4,574,372	\$ 4,756,554	\$ 6,872,405	\$ 6,857,153

Water and Sewer Revenue Bonds and other long-term obligations.

The Municipality has outstanding \$888,214 in General Obligation Bonds. The 1993 Wastewater General Obligation Bond in the amount of \$13,214. The bonds are retired by a tax levy of the Debt Service Fund and will be fully paid off in 2010. This was used for a wastewater drainage project. Series 2008 General Obligation Bonds in the amount of \$875,000. The bonds are retired by a tax levy of the Debt Service fund and will be fully paid off in 2022. This was used to finance the Tea Aquatics Center.

The Municipality has outstanding \$1,212,385 in Revenue Bonds. The 1995 Storm Sewer Utility System Bonds in the amount of \$39,010 retired by Storm Drainage Fees of a Special Revenue Fund. This was used for a storm sewer improvement project and will be fully paid off in 2010. The 1997 Wastewater Collection Expansion Bond in the amount of \$108,374, retired and paid for by the Second Penny Sales

Tax Fund. This was used to pay for the expansion of the wastewater lagoons and will be fully paid off in 2018. The Municipality does not anticipate the use of any tax dollars to pay for these bonds. The Public Safety Building in the amount of \$1,065,000 used for Administration Building and Tea Volunteer Fire Department. This is paid for by Second Penny Sales Tax and will be paid off in 2025.

The Municipality has outstanding \$3,475,873 in Water Revenue Bonds. The 1976 Water Revenue Bonds in the amount of \$41,000 for a waterline improvement project. These are retired by revenue of the Water Enterprise Fund and will be fully paid off in 2015. The 1993 Water System Revenue Bonds in the amount of \$142,473 for water system improvements. These are retired by the Water Enterprise Fund and will be fully paid off in 2033. The 1997 Water Revenue Bond in the amount of \$176,665. This was used to construct a new water storage tank. These are retired by elevated tank fees of the Water Enterprise Fund and will be fully paid off in 2037. The 2007 Drinking Water #1 Revenue Borrower Bond in the amount of \$2,118,827. This is for the Lewis and Clark Regional Water System connection and is retired by Lewis & Clark Fee of the Water Enterprise Fund and will be paid off in 2028. In 2008 the Municipality issued \$1,175,000 in Water Project Revenue Bond for construction of a new 500,000 elevated water storage tank. The project was completed at year end, however the final draw had not been processed at year end. There as been 1,002,449.64 drawn down and a principal payment f \$5,541 for a December 31, 2009 loan blance of \$996,909. These bonds will be paid off in 2048 and are retired by elevated tank fees of the Water Enterprise Fund.

The Municipality has \$1,280,681 outstanding in Borrower Bonds. The 1998 Borrower Bond in the amount of \$128,358 used to pay for a lift station and sewer line improvements along Highway 111 These bonds will be fully paid off in 2014. The 2003 Borrower Bond in the amount of \$386,393 used to pay for the aeration system at the sewer lagoons. These bonds will be fully paid off in 2024 Both Borrower Bonds are retired by the Sewer Enterprise Fund. The 2007 Clean Water Revenue Bonds in the amount of \$765,929.26 used to relocate and expand the lift station located on the north side of the lagoon to the south side of the lagoons and installation of sewer trunkline along Hwy 111 to First Street. These bonds will be paid off in 2029 and are retired by the Sewer Enterprise Fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has shown considerable change. The Municipality did experience an increase in total property valuation of \$18,011,822 or 12% from the prior year. The increase in property valuation allows the Municipality the ability to increase the amount of revenue generated from property taxes by approximately \$128,183.65. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. This year property tax levy requests increased 3% plus growth of 9.11% for a total of 12.11%.

One of the primary sources of revenue to the Municipality is based on taxable retail sales in the community (sales tax). The Municipality has experienced an decrease in taxable sales of 5% over the prior year.

The Municipality's adopted General Fund budget for the next fiscal year will increase 54% to \$2,830,622. The largest portion of this increase is due to capital projects that the city has been planning for.

The Municipality's business-type activities (water and sewer operations) expect that the results for 2010 will remain the same as the prior year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality of Tea's Finance Office, PO Box 128, Tea, SD 57064.

MUNICIPALITY OF TEA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Municipality of Tea's financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ended on December 31, 2008. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the Municipality's revenues exceeded expenditures by \$1,408,659, mainly due to an increase in sales tax, capital grants and contributions and the increase in property valuation which allows the Municipality the ability to increase the amount of revenue generated from property taxes.
- The total cost of the Municipality's expenses increased 17% due to capital improvements.
- The general fund reported a \$411,374.94 current year surplus primarily due to increased sales and use tax; park land purchase that was not closed by the end of 2008; and the park restroom project that was budgeted and not completed.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Municipality's financial statements, including the portion of the Municipal government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the Municipality of Tea's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		Fiduciary Funds
		Governmental Funds	Proprietary Funds	
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems	Funds held for others, Special Assessments
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	Statement of Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resource focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	None

Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality's net assets and how they have changed. Net assets – the difference between the Municipality's assets and liabilities – is one way to measure the Municipality's financial health or position.

- Increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional nonfinancial factors such as changes in the Municipality's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in three categories:

- Governmental Activities -- This category includes the most of the Municipality's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

- **Business-type Activities** -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here.
- **Component Units** -- The Municipality includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this "component unit" is important because the Municipality is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has three kinds of funds:

- **Governmental Funds** – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** – These are mainly cash held for citizens as a result of special assessments on their property. The funds will be used for repaying bonds issued to raise money for the improvements (mainly curb, gutter and asphalt) to the citizen's property.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Municipality's combined net assets increased by 15% between fiscal year 2007 and 2008 – increasing by \$1,409,054 (See table A-1).

Table A-1
Municipality of Tea
Statement of Net Assets

	Governmental Activities		Business-Type Activities		TOTAL	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	\$ 1,836,984	\$ 2,297,821	\$ 1,120,147	\$ 1,620,721	\$ 2,957,131	\$ 3,918,542
Capital Assets	6,084,210	6,423,779	6,669,244	7,650,818	12,753,454	14,074,597
Total Assets	7,921,194	8,721,601	7,789,391	9,271,539	15,710,585	17,993,140
Long-Term Debt Outstanding	2,470,955	2,298,033	3,770,596	4,574,372	6,241,551	6,872,405
Other Liabilities	88,704	66,568	55,581	370,900	144,285	437,468
Total Liabilities	2,559,659	2,364,601	3,826,177	4,945,272	6,385,836	7,309,873
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	3,613,255	4,125,746	2,898,648	3,076,446	6,511,903	7,202,192
Restricted	612,950	656,981	390,247	364,581	1,003,197	1,021,562
Unrestricted	1,135,330	1,574,273	674,319	885,239	1,809,649	2,459,512
Total Net Assets	\$ 5,361,535	\$ 6,356,999	\$ 3,963,214	\$ 4,326,266	\$ 9,324,749	\$ 10,683,265
Adjusted Net Assets - Beginning	4,366,317	5,361,141	3,341,524	3,913,071	7,707,841	9,274,212
Increase (Decrease) in Net Assets	995,218	995,858	621,690	413,195	1,616,908	1,409,054
Percentage of Increase (Decrease) in Net Assets	23%	19%	19%	11%	21%	15%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the Municipality, consisting of General Obligation Bonds payable, sales tax revenue bonds payable, and water and sewer revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the Municipality's assets and liabilities is its net assets.

Changes in Net Assets

The Municipality's revenues totaled \$3,948,999 (See Table A-2.) Well over half of the Municipality's revenue comes from charges for services and taxes, with 27 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 45 cents of every dollar raised comes from some type of tax. (See Figure A-2). Another 28% comes from state and federal grants for capital purposes and most of the rest comes from state-shared revenues and interest earnings.

The total cost of all programs and services increased 17%. The Municipality's expenses cover a range of services, with almost half related to public work services (road maintenance, water system services and sewer system services). (See Figure A-3)

Figure A-2, Municipality of Tea, Sources of Revenues for Calendar Year 2008

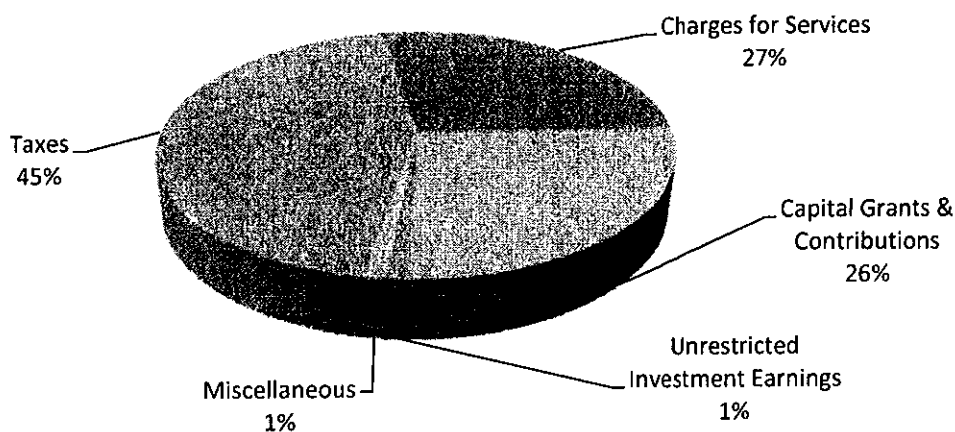
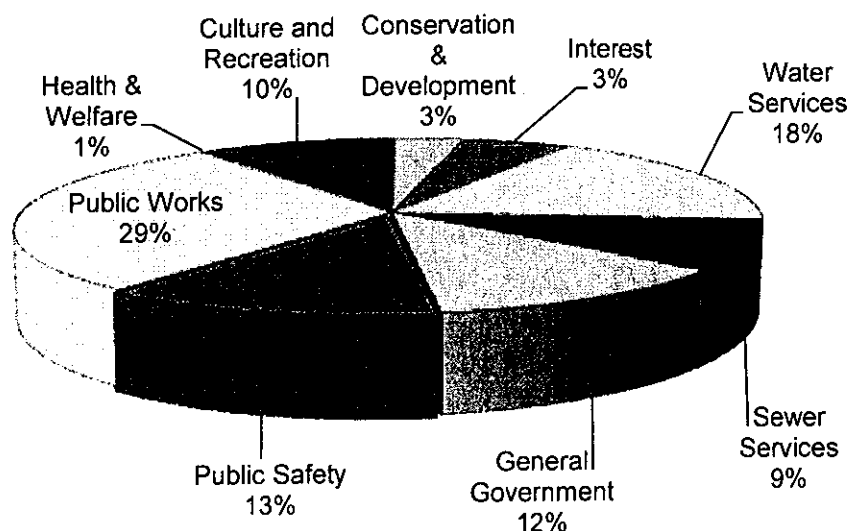


Figure A-3, Municipality of Tea, Functional Expenses for Calendar Year 2008



Governmental Activities

Table A-2 and the narrative that follow considers the operations of the governmental activities.

Total revenues for the Municipality of Tea for 2008 were \$3,949,999 while total expenses were \$2,540,340.

Table A-2 Municipality of Tea Changes in Net Assets						
	Total Governmental Activities		Total Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues						
Program Revenues:						
Charges for Services	\$ 393,517	\$ 163,866	\$ 903,618	\$ 902,382	\$ 1,297,135	\$ 1,066,248
Operating Grants		3,082		-	-	3,082
Capital Grants & Contributions	328,338	835,601	199,810	179,853	528,148	1,015,454
General Revenues:						
Taxes	1,615,110	1,757,219			1,615,110	1,757,219
Revenue State Sources	10,551	11,886			10,551	11,886
Unrestricted Investment Earnings	51,519	28,436	37,024	20,700	88,543	49,136
Miscellaneous	47,542	45,974			47,542	45,974
Total Revenues	2,446,577	2,846,064	1,140,452	\$ 1,102,935	3,587,029	3,948,999
Expenses						
General Government	283,511	306,777			283,511	306,777
Public Safety	298,860	329,355			298,860	329,355
Public Works	497,321	737,606			497,321	737,606
Health & Welfare	3,195	5,125			3,195	5,125
Culture and Recreation	211,765	246,962			211,765	246,962
Conservation and Development	85,078	85,211			85,078	85,211
Interest	71,629	139,563			71,629	139,563
Water Services			323,222	452,720	323,222	452,720
Sewer Services			195,540	237,021	195,540	237,021
Total Expenses	1,451,359	1,850,600	518,762	689,741	1,970,121	2,540,341
Excess (Deficiency) Before Transfers	995,218	995,464.27	621,690	413,194	1,616,908	1,408,658
Transfers						
Increase (Decrease) in Net Assets	995,218	995,464	621,690	413,194	1,616,908	1,408,658.27
Adjusted Beginning Net Assets	4,366,317	5,361,141	3,341,524	3,913,071	7,707,841	9,274,212
ENDING NET ASSETS	\$ 5,361,535	\$ 6,356,605	\$ 3,963,214	\$ 4,326,266	\$ 9,324,749	\$ 10,682,870

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above.

The Municipality maintained two major governmental funds:

- General Fund
- Aquatic Complex Debt Service Fund

and only two major business type funds:

- Water
- Sewer

The Municipality also has other governmental funds:

- 3RD Penny Sales Tax (Liquor, Lodging and Dining Sales Tax Fund)
- 2nd Penny Sales Tax
- Storm Drainage II
- St. Maintenance
- Storm Drainage
- Sidewalk Project Capital Project
- 272nd St. Improvement Capital Project
- Special Park Fund created in 2007 to account for the Tea Park and Recreation Program. They currently maintain their own checkbook however their income and expenses are reported in the government funds as "Special Park Fund".

The General Fund increased by \$411,374.94 or 57.1%. The main reason for the increase in revenues is due to an increase in the property tax base, which resulted in an increase in property tax revenue, along with an increase in sales tax revenue. The Municipality also budgeted for the purchase of additional park land that had not been finalized by the end of the year and therefore the expense had not be incurred; and budgeted for a new park restroom which was put on hold due to the potential new sports complex. The Water Fund increased net assets by \$255,885.90. This was due to good management and contributed assets. The Sewer Fund gained \$157,309.57 for the same reasons.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council did not revise the General Fund budget. The major variations between actual expenditures and budgeted expenditures of the General Fund were as follows:

- The highways and streets department was \$57,723 under budget mainly due to expenses for Highway 111 Improvement project budgeted under street expense but was transferred out to the capital project fund.
- The recreation department was \$376,232 under budget because the purchase of additional park land had not been finalized by the end of the year and a new park restroom was put on hold due to the potential new sports complex.

CAPITAL ASSET ADMINISTRATION

The Municipality of Tea's investment in capital assets for it governmental and business-type activities as of December 31, 2008, amounts to \$14,074,598 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and intangible assets (future option to purchase water) and roads. The total increase in the Municipality of Tea's investment in capital assets for the current year was 10% (See Table A-3.).

Table A-3
Municipality of Tea - Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		TOTAL	
	2007	2008	2007	2008	2007	2008
Land	\$ 557,229	\$ 557,229	\$ 45,827	\$ 45,827	\$ 603,056	\$ 603,056
Construction in Progress	224,507	-	715,638	819,634	940,145	819,634
Buildings	3,365,493	3,293,023	40,530	39,015	3,406,023	3,332,038
Improvements Other Than Buildings	1,443,063	2,021,360	2,996,053	3,897,902	4,439,116	5,919,263
Machinery and Equipment	493,918	552,167	51,320	41,793	545,238	593,961
Intangible Asset			2,819,876	2,806,647	2,819,876	2,806,647
Total Capital Assets (Net)	\$ 6,084,210	\$ 6,423,779	\$ 6,669,244	\$ 7,650,818	\$ 12,753,454	\$ 14,074,598

This year's major capital asset additions and deletions included:

- Completion of the 272nd St. Improvements.
- Artisian Addition (donated street, water and sewer improvements).
- Watertower Project
- Completion of the Lift Station Project

LONG-TERM DEBT

At the year-end the Municipality had \$6,241,551 in General Obligation Bonds, Sales Tax Revenue Bonds, Water and Sewer Revenue Bonds and other long-term obligations.

Table A-4
Municipality of Tea - Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		TOTAL	
	2007	2008	2007	2008	2007	2008
General Obligation Bonds	\$ 1,049,328	\$ 979,777	\$ -	\$ -	\$ 1,049,328	\$ 979,777
Revenue Bonds	1,421,627	1,318,256			\$ 1,421,627	\$ 1,318,256
Water Revenue Bond			2,647,061	3,223,572	\$ 2,647,061	\$ 3,223,572
Sewer Revenue Bond			1,123,534	1,350,800	\$ 1,123,534	\$ 1,350,800
Total Outstanding Debt and Obligations	\$ 2,470,955	\$ 2,298,033	\$ 3,770,595	\$ 4,574,372	\$ 6,241,550	\$ 6,872,405

The Municipality has outstanding \$979,777 in General Obligation Bonds. The 1993 Wastewater General Obligation Bond in the amount of \$64,777. The bonds are retired by a tax levy of the Debt Service Fund and will be fully paid off in 2010. This was used for a wastewater drainage project. Series 2002 General Obligation Bonds in the amount of \$915,000. The bonds are retired by a tax levy of the Debt Service fund and will be fully paid off in 2022. This was used to finance the Tea Aquatics Center.

The Municipality has outstanding \$1,318,256 in Revenue Bonds. The 1995 Storm Sewer Utility System Bonds in the amount of \$89,246 retired by Storm Drainage Fees of a Special Revenue Fund. This was used for a storm sewer improvement project and will be fully paid off in 2010. The 1997 Wastewater Collection Expansion Bond in the amount of \$119,010, retired and paid for by the Second Penny Sales Tax Fund. This was used to pay for the expansion of the wastewater lagoons and will be fully paid off in 2018. The Municipality does not anticipate the use of any tax dollars to pay for these bonds. The

Public Safety Building in the amount of \$1,110,000 used for Administration Building and Tea Volunteer Fire Department. This is paid for by Second Penny Sales Tax and will be paid off in 2025.

The Municipality has outstanding \$3,223,572 in Water Revenue Bonds. The 1976 Water Revenue Bonds in the amount of \$47,000 for a waterline improvement project. These are retired by revenue of the Water Enterprise Fund and will be fully paid off in 2015. The 1993 Water System Revenue Bonds in the amount of \$145,420 for water system improvements. These are retired by the Water Enterprise Fund and will be fully paid off in 2033. The 1997 Water Revenue Bond in the amount of \$179,471. This was used to construct a new water storage tank. These are retired by elevated tank fees of the Water Enterprise Fund and will be fully paid off in 2037. The 2007 Drinking Water #1 Revenue Borrower Bond in the amount of \$2,202,628. This is for the Lewis and Clark Regional Water System connection and is retired by Lewis & Clark Fee of the Water Enterprise Fund and will be paid off in 2028. In 2008 the Municipality issued \$1,175,000 in Water Project Revenue Bond for construction of a new 500,000 elevated water storage tank. The project was not completed at year end and had only drawn \$649,053. These bonds will be paid off in 2048 and are retired by elevated tank fees of the Water Enterprise Fund.

The Municipality has \$1,350,800 outstanding in Borrower Bonds. The 1998 Borrower Bond in the amount of \$156,656 used to pay for a lift station and sewer line improvements along Highway 111. These bonds will be fully paid off in 2014. The 2003 Borrower Bond in the amount of \$406,970 used to pay for the aeration system at the sewer lagoons. These bonds will be fully paid off in 2024. Both Borrower Bonds are retired by the Sewer Enterprise Fund. The 2007 Clean Water Revenue Bonds in the amount of \$787,174 used to relocate and expand the lift station located on the north side of the lagoon to the south side of the lagoons and installation of sewer trunkline along Hwy 111 to First Street. These bonds will be paid off in 2029 and are retired by the Sewer Enterprise Fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has shown considerable change. The Municipality did experience an increase in total property valuation of \$13,349,425 or 9.71% from the prior year. The increase in property valuation allows the Municipality the ability to increase the amount of revenue generated from property taxes by approximately \$119,056. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. This year property tax levy requests increased 2.9% plus growth of 9.77% for a total of 12.67%.

One of the primary sources of revenue to the Municipality is based on taxable retail sales in the community (sales tax). The Municipality has experienced an increase in taxable sales of 2.6% over the prior year.

The Municipality's adopted General Fund budget for the next fiscal year will increase 9.66% to \$1,837,278. The largest portion of this increase is due to capital projects.

The Municipality's business-type activities (water and sewer operations) expect that the results for 2009 will remain the same as the prior year.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality of Tea's Finance Office, PO Box 128, Tea, SD 57064.

CITY OF TEA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$2,300,292	\$795,164	\$3,095,456
Receivables	411,373	143,143	554,516
Prepaid expenses	42,070	3,787	45,857
Restricted assets:			
Cash and cash Equivalents	141,628	463,464	605,092
Deposits	15,053	0	15,053
Capital assets:			
Land and construction in progress	781,278	45,827	827,105
Other capital assets, net of depreciation	5,769,020	7,898,813	13,667,833
TOTAL ASSETS	\$9,460,714	\$9,350,198	\$18,810,912
 LIABILITIES:			
Accounts payable	\$103,125	\$25,610	\$128,735
Other current liabilities	11,600	38,110	49,710
Noncurrent liabilities:			
Due within one year	157,862	190,338	348,200
Due in more than one year	1,942,737	4,566,216	6,508,953
TOTAL LIABILITIES	2,215,324	4,820,274	7,035,598
 NET ASSETS:			
Invested in capital assets, net of related debt	4,449,699	3,188,086	7,637,785
Restricted for:			
Risk pool contribution	15,053	0	15,053
Capital projects	41,878	384,127	426,005
Debt service	99,750	79,337	179,087
Unrestricted	2,639,010	878,374	3,517,384
TOTAL NET ASSETS	7,245,390	4,529,924	11,775,314
 TOTAL LIABILITIES AND NET ASSETS	\$9,460,714	\$9,350,198	\$18,810,912

The accompanying notes to financial statements
are an integral part of this statement.

Component Unit
\$62,280
1,848
0
0
0
1,590,370
907,266
<u>\$2,561,764</u>

\$0
11,550
50,186
<u>2,629,746</u>
<u>2,691,482</u>

(182,296)
0
0
0
<u>52,578</u>
<u>(129,718)</u>
<u>\$2,561,764</u>

**CITY OF TEA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General government	\$268,757	\$51,888	\$15,537
Public safety	359,120	3,185	950
Public works	503,038	25,191	0
Health and welfare	1,934	0	0
Culture and recreation	259,854	125,243	0
Conservation and development	100,347	0	0
*Interest on long-term debt	109,406	0	0
TOTAL GOVERNMENTAL ACTIVITIES	1,602,456	205,507	16,487
Business-type Activities:			
Water	532,703	596,178	0
Sewer	283,370	329,644	0
TOTAL BUSINESS-TYPE ACTIVITIES	816,073	925,822	0
TOTAL PRIMARY GOVERNMENT	\$2,418,529	\$1,131,329	\$16,487
COMPONENT UNIT	\$230,334	\$137,257	\$0

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending (deficit)

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$201,332)	\$0	(\$201,332)	\$0
0	(354,985)	0	(354,985)	0
343,166	(134,681)	0	(134,681)	0
0	(1,934)	0	(1,934)	0
5,000	(129,611)	0	(129,611)	0
0	(100,347)	0	(100,347)	0
0	(109,406)	0	(109,406)	0
348,166	(1,032,296)	0	(1,032,296)	0
76,973	0	140,448	140,448	0
12,522	0	58,806	58,806	0
89,495	0	199,254	199,254	0
\$437,661	(\$1,032,296)	\$199,254	(\$833,042)	\$0
\$0				(93,077)
	1,060,881	0	1,060,881	0
	774,376	0	774,376	0
	11,746	0	11,746	0
	7,464	4,404	11,868	150
	66,220	0	66,220	0
	1,920,687	4,404	1,925,091	150
	888,391	203,658	1,092,049	(92,927)
	6,356,999	4,326,266	10,683,265	(36,791)
\$7,245,390	\$4,529,924	\$11,775,314	(\$129,718)	

**CITY OF TEA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General government	\$306,777	\$51,842	\$0
Public safety	329,355	3,808	1,235
Public works	737,606	19,806	0
Health and welfare	5,126	0	1,597
Culture and recreation	246,962	88,410	250
Conservation and development	85,211	0	0
*Interest on long-term debt	139,563	0	0
TOTAL GOVERNMENTAL ACTIVITIES	1,850,600	163,866	3,082
Business-type Activities:			
Water	452,720	578,414	0
Sewer	237,020	323,968	0
TOTAL BUSINESS-TYPE ACTIVITIES	689,740	902,382	0
TOTAL PRIMARY GOVERNMENT	\$2,540,340	\$1,066,248	\$3,082
COMPONENT UNIT	\$124,823	\$124,535	\$0

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net assets

Net Assets-beginning, previously reported

Correction (Note 4)

Net Assets, as restated

NET ASSETS-ending (deficit)

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$254,935)	\$0	(\$254,935)	\$0
0	(324,312)	0	(324,312)	0
835,601	117,801	0	117,801	0
0	(3,529)	0	(3,529)	0
0	(158,302)	0	(158,302)	0
0	(85,211)	0	(85,211)	0
0	(139,563)	0	(139,563)	0
835,601	(848,051)	0	(848,051)	0
116,009	0	241,703	241,703	0
63,844	0	150,792	150,792	0
179,853	0	392,495	392,495	0
\$1,015,454	(\$848,051)	\$392,495	(\$455,556)	\$0
\$0				(288)
	941,908	0	941,908	0
	815,311	0	815,311	0
	11,886	0	11,886	0
	28,436	20,700	49,136	978
	45,974	0	45,974	11,049
	1,843,515	20,700	1,864,215	12,027
	995,464	413,195	1,408,659	11,739
	5,361,535	3,963,214	9,324,749	(48,530)
	0	(50,143)	(50,143)	0
	5,361,535	3,913,071	9,274,606	(48,530)
	\$6,356,999	\$4,326,266	\$10,683,265	(\$36,791)

CITY OF TEA
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$1,715,303	\$726,617	\$2,441,920
Taxes receivable-delinquent	53,412	8,999	62,411
Accounts receivable	2,111	14	2,125
Special assessment receivable-current	33,529	0	33,529
Special assessment receivable-delinquent	1,584	13,461	15,045
Special assessment receivable-deferred	220,204	0	220,204
Due from other governments	74,543	3,516	78,059
Deposits	15,053	0	15,053
TOTAL ASSETS	<u><u>\$2,115,739</u></u>	<u><u>\$752,607</u></u>	<u><u>\$2,868,346</u></u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$78,023	\$25,102	\$103,125
Accrued wages	11,600	0	\$11,600
Deferred revenue	350,463	24,157	\$374,620
Total Liabilities	<u><u>440,086</u></u>	<u><u>49,259</u></u>	<u><u>489,345</u></u>
 FUND BALANCES:			
Reserved for:			
Deposits	15,053	0	15,053
Unreserved:			
Designated for 2010 budget	669,462	0	669,462
Special revenue funds	0	100,000	100,000
Capital projects funds	0	199,072	199,072
Undesignated	991,138	0	991,138
Undesignated-Special Revenue Funds	0	164,973	164,973
Undesignated-Debt Service Funds	0	197,424	197,424
Undesignated-Capital Project Funds	0	41,879	41,879
Total Fund Balance	<u><u>1,675,653</u></u>	<u><u>703,348</u></u>	<u><u>2,379,001</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$2,115,739</u></u>	<u><u>\$752,607</u></u>	<u><u>\$2,868,346</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2009

Total Fund Balances-Government Funds	\$2,379,001
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	6,550,298
Prepaid expenses and deferred charges are accrued for the statement of net assets, but are expensed as purchased for the funds statement	42,070
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(2,100,599)
Property taxes and special assessments receivable are reported in the period to be financed by the levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	331,189
Sales tax receivable that is not available, is offset with deferred revenue in the funds statement	<u>43,431</u>
Net Assets-Governmental Funds	<u><u>\$7,245,390</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$883,528	\$141,963	\$1,025,491
General sales taxes	749,343	45,551	794,894
Amusement taxes	469		469
Penalties and interest on taxes	2,963	605	3,568
Licenses and permits	43,022	0	43,022
Intergovernmental Revenue			
Federal grants	250	0	250
Federal shared revenue	15,537	0	15,537
State shared revenues	27,630	0	27,630
County shared revenues	10,649	0	10,649
Charges for Goods and Services:			
General government	1,065	7,800	8,865
Public safety	890	0	890
Culture and recreation	220	125,023	125,243
Fines and Forfeits			
Court fines and costs	2,295	0	2,295
Miscellaneous Revenue			
Interest earned	5,027	2,437	7,464
Special assessments	260,448	0	260,448
Street assessments	0	123,604	123,604
Contributions from private sources	5,700	0	5,700
Other	62,337	1,760	64,097
Total Revenue	<u>\$2,071,373</u>	<u>\$448,743</u>	<u>\$2,520,116</u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$14,827	\$0	\$14,827
Executive	10,399	0	10,399
Elections	57	0	57
Financial administration	100,790	0	100,790
Other	92,438	0	92,438
Public Safety			
Police	301,773	0	301,773
Fire	31,638	0	31,638
Public Works			
Highways and streets	219,766	150,211	369,977
Sanitation	10,342	0	10,342
Health and Welfare			
Health	1,934	0	1,934
Culture and Recreation			
Recreation	22,459	177,718	200,177
Libraries	15,233	0	15,233
Conservation and Development:			
Economic development	100,347	0	100,347
Debt Service	114,785	192,056	306,841
Capital Outlay	149,806	224,049	373,855
Total Expenditures	<u>1,186,594</u>	<u>744,034</u>	<u>1,930,628</u>
Excess of Revenues over (under) Expenditures	884,779	(295,291)	589,488
Other Financing Sources (Uses):			
Sale of City property	780	0	780
Transfers-in	123,342	465,000	588,342
Transfers-out	<u>(465,000)</u>	<u>(123,342)</u>	<u>(588,342)</u>
Net Change in Fund Balances	543,901	46,367	590,268
FUND BALANCE JANUARY 1, 2009	<u>1,131,752</u>	<u>656,981</u>	<u>1,788,733</u>
FUND BALANCE, DECEMBER 31, 2009	<u><u>\$1,675,653</u></u>	<u><u>\$703,348</u></u>	<u><u>\$2,379,001</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Net Changes in Fund Balances-Total Governmental Funds	\$590,268
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, resulting in the following differences:

Capital expenditures	373,856
Depreciation expense	(247,337)

Prepaid insurance is recorded in the statement of activities but not in the governmental funds	4,219
--	-------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	197,435
--	---------

Property tax and special assessment revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	<u>(30,050)</u>
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Change in Nets Assets of Governmental Activities	<u><u>\$888,391</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Aquatic Fund	Other Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$808,150	\$87,595	\$60,917
General sales taxes	775,955	0	44,048
Amusement taxes	432	0	0
Penalties and interest on taxes	6,277	853	744
Licenses and permits	39,047	0	0
Intergovernmental Revenue			
Federal grants	1,597	0	0
State shared revenues	28,177	0	0
County shared revenues	4,769	0	0
Charges for Goods and Services:			
General government	2,995	0	9,800
Public safety	550	0	0
Culture and recreation	317	0	88,093
Fines and Forfeits			
Court fines and costs	3,258	0	0
Miscellaneous Revenue			
Interest earned	15,948	718	11,770
Rentals	1,200	0	0
Special assessments	59,595	0	146,019
Street assessments	0	0	132,904
Contributions from private sources	1,485	0	0
Other	39,310	0	2,263
Total Revenue	<u>\$1,789,062</u>	<u>\$89,166</u>	<u>\$496,558</u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$956,662

820,003

432

7,874

39,047

1,597

28,177

4,769

12,795

550

88,410

3,258

28,436

1,200

205,614

132,904

1,485

41,573

\$2,374,786

CITY OF TEA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Aquatic Fund	Other Governmental Funds
Expenditures:			
General Government			
Legislative	\$13,026	\$0	\$0
Executive	10,434	0	0
Elections	48	0	0
Financial administration	101,255	0	0
Other	128,632	0	0
Public Safety			
Police	285,611	0	0
Fire	21,001	0	0
Public Works			
Highways and streets	128,966	0	485,660
Sanitation	7,839	0	0
Health and Welfare			
Health	5,126	0	0
Culture and Recreation			
Recreation	33,985	0	157,400
Libraries	14,665	0	0
Conservation and Development:			
Economic development	85,211	0	0
Debt Service	116,540	110,325	106,444
Capital Outlay	175,848	0	19,667
Total Expenditures	<u>1,128,187</u>	<u>110,325</u>	<u>769,171</u>
Excess of Revenues over (under)			
Expenditures	660,875	(21,159)	(272,613)
Other Financing Sources (Uses):			
Sale of City property	250	0	0
Proceeds of long-term debt	0	915,000	0
Payment to refunded debt escrow agent	0	(892,083)	0
Transfers-in	20,250	0	270,000
Transfers-out	<u>(270,000)</u>	<u>0</u>	<u>(20,250)</u>
Net Change in Fund Balances	411,375	1,758	(22,863)
FUND BALANCE JANUARY 1, 2008	<u>720,377</u>	<u>37,963</u>	<u>640,123</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$1,131,752</u></u>	<u><u>\$39,721</u></u>	<u><u>\$617,260</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Total Governmental Funds
\$13,026
10,434
48
101,255
128,632
285,611
21,001
614,626
7,839
5,126
191,385
14,665
85,211
333,309
195,515
<u>2,007,683</u>
367,103
250
915,000
(892,083)
290,250
<u>(290,250)</u>
390,270
<u>1,398,463</u>
<u><u>\$1,788,733</u></u>

CITY OF TEA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Net Changes in Fund Balances-Total Governmental Funds	\$390,270
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, resulting in the following differences:

Capital expenditures	195,515
Depreciation expense	(232,126)
Contributed fixed assets	376,576

Prepaid insurance is recorded in the statement of activities but not in the governmental funds	(52)
--	------

Proceeds of long-term debt	(915,000)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	151,838
--	---------

Bond issuance costs are recorded as expenditures in the funds	43,605
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Payment to escrow agent is reported as an expense in the funds	892,083
--	---------

Property tax and special assessment revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	92,755
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Change in Nets Assets of Governmental Activities	<u><u>\$995,464</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF TEA
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	Water Fund	Sewer Fund	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$412,227	\$382,937	\$795,164
Accounts receivable	63,601	36,178	99,779
Prepays	0	3,787	3,787
Due from other governments	43,364	0	43,364
Total Current Assets	519,192	422,902	942,094
Noncurrent Assets:			
Restricted cash and cash equivalents	324,361	139,103	463,464
Capital Assets:			
Land	26,199	19,628	45,827
Buildings	50,000	0	50,000
Improvements other than buildings	2,911,402	3,211,020	6,122,422
Machinery and equipment	38,034	66,449	104,483
Intangible assets	2,927,110	0	2,927,110
Accumulated Depreciation	(635,855)	(669,347)	(1,305,202)
Total Noncurrent Assets	5,641,251	2,766,853	8,408,104
TOTAL ASSETS	\$6,160,443	\$3,189,755	\$9,350,198

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	Water Fund	Sewer Fund	Total
LIABILITIES			
Current Liabilities:			
Accounts payable	\$23,152	\$2,458	\$25,610
Customer deposits	34,960	0	34,960
Accrued wages	915	915	1,830
Accrued interest	1,320	0	1,320
Bonds payable current:			
Revenue	110,151	80,187	190,338
Total Current Liabilities	170,498	83,560	254,058
Non-current Liabilities:			
Bonds payable:			
Revenue	3,365,722	1,200,494	4,566,216
NET ASSETS			
Invested in capital assets, net of related debt	1,841,017	1,347,069	3,188,086
Restricted net assets restricted for:			
Revenue bond debt service	79,337	0	79,337
Equipment replacement	245,024	139,103	384,127
Unrestricted net assets	458,845	419,529	878,374
Total Net Assets	2,624,223	1,905,701	4,529,924
TOTAL LIABILITIES AND NET ASSETS	\$6,160,443	\$3,189,755	\$9,350,198

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$596,178	\$329,644	\$925,822
OPERATING EXPENSES:			
Personal services	71,325	71,043	142,368
Other current expense	58,301	72,660	130,961
Cost of goods sold	166,676	0	166,676
Depreciation	111,440	77,089	188,529
Total Operating Expenses	407,742	220,792	628,534
Operating Income (loss)	188,436	108,852	297,288
Non-operating Revenue (Expense)			
Interest earned	2,685	1,719	4,404
Interest expense	(124,961)	(62,578)	(187,539)
Total Non-operating Revenue (Expense)	(122,276)	(60,859)	(183,135)
Income before contributions	66,160	47,993	114,153
Capital contributions	76,973	12,532	89,505
Change in Net Assets	143,133	60,525	203,658
NET ASSETS, BEGINNING	2,481,090	1,845,176	4,326,266
NET ASSETS, ENDING	\$2,624,223	\$1,905,701	\$4,529,924

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$586,835	\$327,033	\$913,868
Receipts for interfund services	5,651	1,260	6,911
Payments to suppliers	(215,720)	(75,149)	(290,869)
Payments to employees	(71,192)	(70,909)	(142,101)
Net Cash Provided by Operating Activities	<u>305,574</u>	<u>182,235</u>	<u>487,809</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from capital debt	628,470	0	628,470
Capital contributions	76,973	12,532	89,505
Purchase of capital assets	(795,012)	0	(795,012)
Debt principal paid	(101,096)	(70,119)	(171,215)
Debt interest paid	(126,124)	(62,578)	(188,702)
Cash Flows from Investing Activities:			
Cash received from interest	<u>2,685</u>	<u>1,719</u>	<u>4,404</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,530)	63,789	55,259
Cash and Cash Equivalents Beginning of Year	<u>745,118</u>	<u>458,251</u>	<u>1,203,369</u>
Cash and Cash Equivalents End of Year	<u><u>\$736,588</u></u>	<u><u>\$522,040</u></u>	<u><u>\$1,258,628</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$188,436	\$108,852	\$297,288
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	111,440	77,089	188,529
Changes in Assets and Liabilities:			
Receivables	(3,482)	(1,351)	(4,833)
Prepays	0	182	182
Accounts and other payables	9,390	(2,537)	6,853
Prepays	<u>(210)</u>	<u>0</u>	<u>(210)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$305,574</u></u>	<u><u>\$182,235</u></u>	<u><u>\$487,809</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$578,414	\$323,968	\$902,382
OPERATING EXPENSES:			
Personal services	79,215	78,968	158,183
Other current expense	69,657	60,920	130,577
Cost of goods sold	159,599	0	159,599
Depreciation	54,309	73,772	128,081
Total Operating Expenses	362,780	213,660	576,440
Operating Income (loss)	215,634	110,308	325,942
Non-operating Revenue (Expense)			
Interest earned	14,182	6,518	20,700
Interest expense	(89,940)	(23,360)	(113,300)
Total Non-operating Revenue (Expense)	(75,758)	(16,842)	(92,600)
Income before contributions	139,876	93,466	233,342
Capital contributions	116,009	63,844	179,853
Change in Net Assets	255,885	157,310	413,195
NET ASSETS, BEGINNING, previously reported	2,272,269	1,690,945	3,963,214
Correction (Note 4)	(47,064)	(3,079)	(50,143)
NET ASSETS, BEGINNING, as restated	2,225,205	1,687,866	3,913,071
NET ASSETS, ENDING	\$2,481,090	\$1,845,176	\$4,326,266

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$574,247	\$323,497	\$897,744
Receipts for interfund services	4,864	1,350	6,214
Payments to suppliers	(229,103)	(58,469)	(287,572)
Payments to employees	(81,330)	(81,085)	(162,415)
Net Cash Provided by Operating Activities	<u>268,678</u>	<u>185,293</u>	<u>453,971</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from capital debt	330,615	274,063	604,678
Capital contributions	116,009	63,844	179,853
Purchase of capital assets	(530,041)	(317,096)	(847,137)
Debt principal paid	(72,541)	(46,797)	(119,338)
Debt interest paid	(87,766)	(23,360)	(111,126)
Cash Flows from Investing Activities:			
Cash received from interest	<u>14,182</u>	<u>6,518</u>	<u>20,700</u>
Net Increase in Cash and Cash Equivalents	39,136	142,465	181,601
Cash and Cash Equivalents Beginning of Year	<u>705,982</u>	<u>315,786</u>	<u>1,021,768</u>
Cash and Cash Equivalents End of Year	<u><u>\$745,118</u></u>	<u><u>\$458,251</u></u>	<u><u>\$1,203,369</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (loss)	\$215,634	\$110,308	\$325,942
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	54,309	73,772	128,081
Changes in Assets and Liabilities:			
Receivables	(1,598)	879	(719)
Prepays	0	183	183
Accounts payable	(1,962)	151	(1,811)
Deposits	<u>2,295</u>	<u>0</u>	<u>2,295</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$268,678</u></u>	<u><u>\$185,293</u></u>	<u><u>\$453,971</u></u>
Non-cash transactions:			
Corrections to accumulated depreciaton	<u><u>(\$47,064)</u></u>	<u><u>(\$3,079)</u></u>	<u><u>(\$50,143)</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$235,623</u>
Total Assets	<u><u>\$235,623</u></u>
 LIABILITIES:	
Amount held for others	<u>\$235,623</u>
Total Liabilities	<u>235,623</u>
 NET ASSETS	<u>0</u>
 Total Liabilities and Net Assets	<u><u>\$235,623</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Tea, consists of the primary government (which includes all of the funds, organizations, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Housing and Redevelopment Commission of the City of Tea, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: City of Tea Housing and Redevelopment Commission, PO Box 128, Tea SD 57064.

The City participates in a joint venture with 19 other entities. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a, above, and may be classified as either governmental or business-type activities. See the discussion of the individual component units in Note 1a, above.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least .5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund - to account for library contributions, fines and other revenues and related expenditures. This is not a major fund.

Second Penny Sales Tax A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund was financed by a retail sales tax until January 1, 2004. This is not a major fund.

Entertainment Tax A fund established by SDCL 10-52A-2 to pay for promotion of the City. The fund is financed by a 1% retail sales tax on motels, bars and restaurants. It is not a major fund.

Storm Drainage A fund established by SDCL 9-48-21 to maintain the City's drainage system. This fund is financed by Special Assessments and is not a major fund.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Street Maintenance A fund established by SDCL 9-45-38 to help maintain the City streets. This fund is financed by Street Assessments and is not a major fund.

Debt Service Funds debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Aquatic Complex Debt Service Fund - to account for property taxes which may be used only for the payment of debt principal, interest and related costs. This is not a major fund in 2009, but was in 2008.

Storm Drainage Fund - to account for the property taxes which may be used only for the payment of debt service of a 1993 "SRF" loan. This is not a major fund.

Capital Projects Funds - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Athletic Complex Capital Project Fund - to account for financial resources to be used for the construction of a new soccer complex. This is not a major fund.

Highway 111 Capital Project Fund - to account for financial resources to be used for the construction of street improvements. This is not a major fund.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund	a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.
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Sewer Fund	a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.
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Fiduciary Funds:

Fiduciary funds consist of the following and are never considered to be major funds:

Agency Funds - Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These include two special assessment funds and the "Teapot" fund, a local club having contests, etc. during the "Teapot Days" celebration.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Tea, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are sales tax, real estate taxes, federal reimbursement grants, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but no available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2009 balance of governmental activities capital assets includes approximately 1 percent for which the costs were determined by estimates of the original costs. The total December 31, 2009 balance of business-type capital assets includes 8 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	ALL	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

e. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of general obligation and revenue bonds payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

f. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency funds have no fund equity. The net assets are reported as funds held in agency capacity.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF
CREDIT RISK AND INTEREST RATE RISK (continued)

It is the City's policy to deposit all interest revenue to the fund making the investment.

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held at December 31, 2009.

Credit Risk - State law limits eligible investments for the City as discussed above. The City has no investment policy that would further limit its investment choices.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2009 follows:

	Balance 1/1/08	Additions	Deletions	Balance 12/31/09
Governmental Activities:				
Capital Assets				
Not being Depreciated:				
Land	\$ 557,229	\$ 115,985	-	\$ 673,214
Construction in progress	<u>224,507</u>	<u>250,999</u>	<u>367,442</u>	<u>108,064</u>
TOTAL	<u>781,736</u>	<u>366,984</u>	<u>367,442</u>	<u>781,278</u>
Capital Assets Being Depreciated				
Buildings	3,617,163	10,000	-	3,627,163
Improvements	1,578,444	638,146	-	2,216,590
Equipment	<u>825,797</u>	<u>349,927</u>	<u>-</u>	<u>1,175,724</u>
Totals	<u>6,021,404</u>	<u>998,073</u>	<u>-</u>	<u>7,019,477</u>
Less accumulated Depreciation for:				
Building	251,671	145,015	-	396,686
Improvements	135,380	127,765	-	263,145
Equipment	<u>331,879</u>	<u>211,160</u>	<u>-</u>	<u>543,039</u>
Total	<u>718,930</u>	<u>483,940</u>	<u>-</u>	<u>1,202,870</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/09
Total Capital Assets being Depreciated-Net	\$5,302,474	\$ 514,133	-	\$5,816,607
Governmental Activity Capital Assets Net	\$6,084,210	\$ 881,117	\$ 367,442	\$6,597,885

Depreciation expense was charged to functions as follows:

	2009	2008
General government	\$ 54,465	\$53,330
Public Safety	25,709	22,743
Public Works	127,196	115,141
Culture and Recreation	44,444	40,912
	<u>\$251,814</u>	<u>\$232,126</u>

Business-type Activities:

Capital Assets Not being Depreciated	Balance 1/1/08	Additions	Deletions	Balance 12/31/09
Land	\$ 45,827	\$ -	\$ -	\$ 45,827
Construction in progress	715,638	103,996	819,634	-
Total	<u>761,465</u>	<u>103,996</u>	<u>819,634</u>	<u>45,827</u>

Capital Assets Being Depreciated

Buildings	50,000	-	-	50,000
Improvements	3,871,383	2,251,039	-	6,122,422
Equipment	104,483	-	-	104,483
Intangibles	2,819,876	107,234	-	2,927,110
Totals	<u>6,845,742</u>	<u>2,358,273</u>	<u>-</u>	<u>9,204,015</u>

Less accumulated Depreciation for:

Building	9,470	3,030	-	12,500
Improvements	875,331	274,285	-	1,149,616
Equipment	53,162	17,278	-	70,440
Intangibles	-	72,646	-	72,646
Total	<u>937,963</u>	<u>367,239</u>	<u>-</u>	<u>1,305,202</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

4. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/09
Total Capital Assets being Depreciated-Net	\$5,907,779	\$1,991,034	\$ -	\$7,898,813
Business-type Activity Capital Assets Net	\$6,669,244	\$2,095,303	\$ 819,634	\$7,944,640

Depreciation expense was charged to functions as follows:

	2009	2008
Water	\$111,440	\$ 54,309
Sewer	77,089	73,772
	\$188,529	\$ 128,081

Additions to accumulated depreciation include a correction to prior year's depreciation of \$50,143. The correction was necessary due to a mathematical mistake in calculating depreciation expense.

	1/1/08	Add	Delete	12/31/09
Component Unit:				
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Construction	2,325,000	-	819,630	1,505,370
	\$2,410,000	-	819,630	1,590,370
Building	1,120,000	-	-	1,120,000
Equipment	-	92,721	-	92,721
Accumulated Depreciation	(237,576)	(67,879)	-	(305,455)
Net	\$ 882,424	\$ 24,842	\$ -	\$ 907,266
Total	\$3,292,424	\$ 24,842	\$ 819,630	\$2,497,636

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>General Obligation</u>	<u>Revenue</u>	<u>Totals</u>
Governmental Activities:			
Debt Payable, January 1, 2008	\$1,049,328	\$1,421,627	\$2,470,955
Additions	915,000	-	915,000
Retired	<u>(1,076,114)</u>	<u>(209,242)</u>	<u>(1,285,356)</u>
Debt payable, December 31, 2009	<u>\$ 888,214</u>	<u>\$1,212,385</u>	<u>\$2,100,599</u>
Due within One Year	<u>\$ 63,214</u>	<u>\$ 94,648</u>	<u>\$ 157,862</u>
Business-type Activities:			
Debt Payable, January 1, 2008	\$ -	\$3,770,596	\$3,770,596
Additions	-	1,276,512	1,276,512
Retired	<u>-</u>	<u>(290,554)</u>	<u>(290,554)</u>
Debt payable, December 31, 2009	<u>\$ -</u>	<u>\$4,756,554</u>	<u>\$4,756,554</u>
Due within One Year	<u>\$ -</u>	<u>\$ 190,338</u>	<u>\$ 190,338</u>
Total Primary Government	<u>\$ 888,214</u>	<u>\$5,968,939</u>	<u>\$6,857,153</u>
Due within One Year	<u>\$ 63,214</u>	<u>\$ 284,996</u>	<u>\$ 348,200</u>

Debt payable at December 31, 2009 is comprised of the following:

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

GOVERNMENTAL ACTIVITIES:

General Obligation Bonds:

\$600,000 1993 Wastewater General
Obligation Bonds, 4% interest, final
maturity date of 2010. Retired by
a tax levy of the Debt Service Fund \$ 13,214

Series 2008 General Obligation Bonds,
2.5%-4% interest depending in length to
maturity of individual bonds), final
maturity date of 2022. Retired by a
tax levy of the Debt Service Fund \$ 875,000

Total General Obligation Debt 888,214

Revenue Bonds:

\$600,000 1995 Storm Sewer Utility
System Bonds, 4% interest, final
maturity date of 2010. Retired by
Storm Drainage fees of a Special
Revenue Fund 39,011

\$208,813 1997 Wastewater Collection
Expansion Bond, 5.25% interest,
final maturity date of 2018. Retired
by the General Fund 108,374

Series 2005 Sales Tax Revenue Bonds,
3.9% to 5% interest, depending on length
to maturity of individual bonds. Maturity
date of December 31, 2025. Retired
by General Fund 1,065,000

Total Revenue Debt 1,212,385

TOTAL GOVERNMENTAL ACTIVITIES DEBT \$2,100,599

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

\$140,000 1976 Water Revenue Bonds, 5%
interest, final maturity date of 2015.
Retired by revenues of the Water
Enterprise Fund \$ 41,000

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

\$173,000 1993 Water System Revenue Bonds,
5.625% interest, final maturity date of
2033. Retired by revenues of the Water
Enterprise Fund 142,473

\$200,000 1997 Water Revenue Bond, 5.375%
interest, final maturity date of 2037.
Retired by elevated tank fees of the
Water Enterprise Fund 176,665

Drinking Water Revenue Borrower Bonds,
Series 2007, 3.250 % interest, final
maturity date of January 2028.
Retired by the Water Enterprise Fund 2,118,827

Water project Revenue Bond, Series 2008
A USDA Rural Development loan agreement.
Maturity date October 2049. The debt is
payable at an interest rate of 4.375%. It
is being paid by the Water Fund 996,909

Sewer Borrower Bonds, Series 1998
5.0% interest, final maturity date of
January 2014. Retired by the Sewer
Enterprise Fund. 128,358

Clean Water Revenue Borrower Bonds,
Series 2003. 3.5% interest, final maturity
date of April 2024. Retired by the Sewer
Enterprise Fund. 386,393

Clean Water Revenue Borrower Bonds, Series
2007. 3.25% interested, final maturity date
of January 2029. Retired by the Sewer
Enterprise Fund 765,929

TOTAL BUSINESS-TYPE ACTIVITY DEBT \$4,756,554

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

During 2008 the City issued \$915,000 of 2.5% - 4.6% Series 2008 G.O. Refunding Bonds. The proceeds of the bonds were used to call and pay-off \$895,000 of 4.05% - 5.50% Series 2002 G.O. Bonds. This resulted in a savings of \$56,689 of interest over the life of the debt and an economic gain of \$41,767.

The annual requirements to amortize all debt outstanding as of December 31, 2009 as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2009

Governmental Activities:

Year	General		Revenue		Total	
Ending	Obligation					
December						
31,	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 63,214	\$ 35,382	\$ 94,648	\$ 56,994	\$ 157,862	\$ 92,376
2011	55,000	33,825	62,377	53,744	117,377	87,569
2012	55,000	32,120	62,438	51,037	117,438	83,157
2013	60,000	30,250	68,104	48,171	128,104	78,421
2014	65,000	28,000	68,805	45,049	133,805	73,049
2015-						
2019	390,000	98,600	361,013	193,248	751,013	291,848
2020-						
2024	200,000	13,700	400,000	86,250	600,000	99,950
2025-						
2029	-	-	95,000	4,750	95,000	4,750
Totals	\$ 888,214	\$271,877	\$1,212,385	\$539,243	\$2,100,599	\$ 811,120

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued)

Annual Requirements to Amortize Long-term Debt
December 31, 2009

Business-type Activities:

Year Ending

December 31,

	Revenue	
	Principal	Interest
2010	\$ 190,338	\$ 182,211
2011	197,269	147,980
2012	205,471	167,478
2013	213,126	159,473
2014	184,635	152,009
2015-2019	994,481	658,390
2020-2024	1,147,244	471,312
2025-2029	886,481	274,813
2030-2034	239,982	177,619
2035-2039	216,965	123,288
2040-2044	280,562	159,359
TOTAL	<u>\$4,756,554</u>	<u>\$2,700,932</u>

As of December 31, 2009, there were \$321,000 of Special Assessments Bonds outstanding. These will be paid solely from Special Assessment proceeds collected from citizens. The City is not liable for repayment of this debt, but is only acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

6. LONG-TERM DEBT - COMPONENT UNIT

Changes in long-term debt of the component unit were as follows:

	Mortgages	Installment Loan	Total
Balance, January 1, 2008	\$1,002,594	\$ 50,151	\$1,052,745
Additions	1,721,992	-	1,721,992
Repaid	<u>(44,654)</u>	<u>(50,151)</u>	<u>(94,805)</u>
Balance, December 31, 2009	<u>\$2,679,932</u>	<u>-</u>	<u>2,679,932</u>
Due with-in one year	<u>\$ 50,186</u>	<u>\$ -</u>	<u>\$ 59,186</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT - COMPONENT UNIT (continued)

The above consists of three mortgages, payable to the bank and secured by land and buildings as follows:

5.45% loan due in monthly installments of \$3,163, including interest to 9/30/30	\$ 470,957
5.65% loan due in monthly installments of \$3,349, to 4/20/31	486,983
5% loan due in monthly installments of \$11,987, to 4/30/2039	<u>1,721,992</u>
	<u>\$2,679,932</u>

Debt Service is as follows:

Year ended December 31,	<u>Principal</u>	<u>Interest</u>
2010	\$ 50,186	\$ 163,343
2011	61,745	160,245
2012	64,938	157,052
2013	68,598	153,392
2014	72,310	149,680
2015-2019	424,553	685,396
2020-2024	552,727	557,222
2025-2029	720,065	389,884
2030-2034	593,098	208,206
2035-2039	<u>71,712</u>	<u>61,613</u>
Total	<u>\$2,679,932</u>	<u>\$2,686,033</u>

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2009 the City managed its risk as follows:

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of experience to date of the Fund members. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

local government entities. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis.

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year	100%

As of December 31, 2009, the City had a vested balance in the cumulative reserve fund of \$15,053.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$250 deductible for the automobile coverage and \$1,000 deductible for the general liability.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

9. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008 and 2007 were \$29,909, \$28,973 and \$23,129 respectively, equal to the required contributions each year.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

10. COMMITMENTS

The City is committed to completing the following projects:

<u>Name</u>	<u>Total Cost</u>	<u>Costs Incurred At 12/31/09</u>	<u>Cost to Complete</u>
Soccer Field	\$ 6,800,000	\$ 32,137	\$ 6,767,863
Highway 111 Reconstruction	<u>4,800,000</u>	<u>75,927</u>	<u>4,724,073</u>
	<u>\$11,600,000</u>	<u>\$ 108,064</u>	<u>\$11,491,936</u>

No additional financing has been obtained for the above projects.

11. INVENTORY

Inventory in the General Fund and Special Revenue Funds consists of expendable supplies held for consumption.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumptions of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow consumption. No material quantities of supplies were on hand as of December 31, 2009.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the Fund Financial Statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicated that they do not constitute "available spendable resources" even though they are a component part of net current assets.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

12. JOINTLY GOVERNED ORGANIZATION

The City is a member of the Lewis and Clark Regional Water System, Inc. (The "System") in conjunction with the following municipalities and water systems that provide drinking water to consumers.

<u>South Dakota</u>	<u>Minnesota</u>	<u>Iowa</u>
Tea	Luverne	Hull
Sioux Falls	Worthington	Sheldon
Madison	Lincoln-Pipestone RWS	Sibley
Harrisburg	Rock County RWS	Sioux Center
Lennox		Rock Rapids
Parker		
Beresford		
Centerville		
Lincoln County RWS		
South Lincoln RWS		
Minnehaha CWC		

The System will collect, treat, and distribute drinking water to the entities involved upon completion. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City entered into an amended agreement with the System to provide 1.1 million gallons of drinking water per day to ensure that future water supply needs of the City can be met. In all, it is estimated that the City of Tea's share of the \$529.3 million (July 2007 dollars) System project is currently \$2.8 million, in July 2007 dollars. The City's investment to date of \$2.8 million is recorded in the Water Enterprise Fund as an intangible asset. The City's prepayment was financed by the issuance of Drinking Water Revenue Bonds, Series 2007. Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The actual commitment costs may be higher due to cost indexing, construction over-runs and decreases in federal funding. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated life-span upon the receipt of benefits from the System.

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

13. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$3,475,874 in water system revenue bonds issued from 1976 to 2008. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2049. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,449,185. Principal and interest paid for the current year and total customer net revenue were \$227,220 and \$299,876, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$1,280,680 in sewer system revenue bonds issued in 1998, 2003 and 2007. Proceeds from the bonds provided financing for the construction of sewer system improvements.

The bonds are payable solely from sewer customer net revenues and are payable through 2020. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,008,301. Principal and interest paid for the current year and total customer net revenues were \$132,697 and \$185,941, respectively.

14. INTERFUND TRANSFERS

During 2009 and 2008 the following transfers were made:

	<u>Transfers-in</u>	<u>Transfers-out</u>
2009:		
General Fund	\$ 123,342	\$ 465,000
Capital Project Funds:		
SW Project	-	1,853
272 Street	-	121,489
Athletic Complex	190,000	-
Highway 111	275,000	-
	<u>\$ 588,342</u>	<u>\$ 588,342</u>

CITY OF TEA
NOTES TO FINANCIAL STATEMENTS

14. INTERFUND TRANSFERS (continued)

	<u>Transfers-in</u>	<u>Transfers-out</u>
2008:		
General Fund	\$ 20,250	\$ 270,000
Special Revenue Funds:		
3 rd Penny Fund	35,000	-
2 nd Penny Fund	-	20,250
Capital Projects Funds:		
SW Project	<u>235,000</u>	<u>-</u>
	<u>\$ 290,250</u>	<u>\$ 290,250</u>

Reason for transfers:

To close completed Capital Projects Funds	<u>\$123,342</u>
To subsidize operations	<u>\$755,250</u>

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$912,634	\$912,634	\$883,528
General sales and use taxes	756,000	756,000	749,343
Amusement tax	400	400	469
Penalties	1,500	1,500	2,963
Licenses and Permits	50,450	50,450	43,022
Intergovernmental Revenue			
Federal grants	0	0	250
Federal shared revenues	0	0	15,537
State shared revenue	23,600	23,600	27,630
County shared revenue	5,194	5,194	10,649
Charges for Goods or Services:			
General government	3,000	3,000	1,065
Public safety	0	0	890
Culture and recreation	0	0	220
Fines and Forfeits			
Court fines and costs	3,000	3,000	2,295
Library fines	5,000	5,000	0
Miscellaneous Revenue			
Investment earnings	21,000	21,000	5,027
Special assessments	20,000	20,000	260,448
Contributions from private sources	0	0	5,700
Other	35,500	35,500	62,337
Total Revenue	1,837,278	1,837,278	2,071,373

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

(\$29,106)

(6,657)

69

1,463

(7,428)

250

15,537

4,030

5,455

(1,935)

890

220

(705)

(5,000)

(15,973)

240,448

5,700

26,837

234,095

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

EXPENDITURES	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
General Government			
Legislative	\$17,394	\$17,394	\$14,827
Contingencies	73,564	73,564	0
Amount transferred	0	(22,500)	0
Executive	13,418	13,418	10,399
Elections	600	600	57
Financial administration	113,278	113,278	100,790
Other	146,300	146,300	102,438
Public Safety			
Police	317,803	327,803	324,790
Fire	29,669	31,669	31,638
Public Works			
Highways and streets	248,093	306,593	297,824
Sanitation	8,000	10,500	10,342
Health and Welfare			
Health	7,000	7,000	1,934
Culture and Recreation			
Recreation	98,000	98,000	50,938
Libraries	30,000	30,000	25,485
Conservation and development			
Economic development	124,324	124,324	100,347
Debt Service	114,286	114,286	114,785
Total Expenditures	1,341,729	1,392,229	1,186,594
Excess of Revenue over (under) Expenditures	495,549	445,049	884,779
Other Financing Sources (Uses):			
Transfers-in	0	0	123,342
Transfers-out	(495,549)	(495,549)	(465,000)
Sale of General Capital Assets	0	0	780
Net Change in Fund Balance	0	(50,500)	543,901
FUND BALANCE-Beginning	1,131,752	1,131,752	1,131,752
FUND BALANCE-Ending	\$1,131,752	\$1,081,252	\$1,675,653

The accompanying notes to supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$2,567
73,564
(22,500)
3,019
543
12,488
43,862

3,013
31

8,769
158

5,066

47,062
4,515

23,977

(499)

205,635

439,730

123,342
30,549
780

594,401

0

\$594,401

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$795,912	\$795,912	\$808,150
General sales and use taxes	720,000	720,000	775,955
Amusement tax	0	0	432
Penalties	0	0	6,277
Licenses and Permits	48,450	48,450	39,047
Intergovernmental Revenue			
Federal grants	0	0	1,597
State shared revenue	24,100	24,100	28,177
County shared revenue	5,194	5,194	4,769
Charges for Goods or Services:			
General government	0	0	2,995
Public safety	0	0	550
Culture and recreation	0	0	317
Fines and Forfeits			
Court fines and costs	4,000	4,000	3,258
Miscellaneous Revenue			
Investment earnings	21,000	21,000	15,948
Rentals	1,000	1,000	1,200
Special assessments	20,000	20,000	59,595
Contributions from private sources	5,000	5,000	1,485
Other	30,000	30,000	39,310
Total Revenue	1,674,656	1,674,656	1,789,062

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$12,238

55,955

432

6,277

(9,403)

1,597

4,077

(425)

2,995

550

317

(742)

(5,052)

200

39,595

(3,515)

9,310

114,406

CITY OF TEA
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

EXPENDITURES	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
General Government			
Legislative	\$17,394	\$17,394	\$13,026
Contingencies	26,705	26,705	0
Amount transferred	0	(250)	0
Executive	10,935	10,935	10,434
Elections	750	750	48
Financial administration	123,193	123,193	101,255
Other	131,660	131,660	128,632
Public Safety			
Police	328,390	328,390	307,743
Fire	20,952	21,052	21,000
Public Works			
Highways and streets	300,025	300,025	242,302
Sanitation	8,000	8,000	7,839
Health and Welfare			
Health	5,000	5,150	5,126
Culture and Recreation			
Recreation	439,700	439,700	63,468
Libraries	28,700	28,700	25,563
Conservation and development			
Economic development	96,162	96,162	85,211
Debt Service	116,641	116,641	116,540
Total Expenditures	1,654,207	1,654,207	1,128,187
Excess of Revenue over (under) Expenditures	20,449	20,449	660,875
Other Financing Sources (Uses):			
Transfers-out	(51,090)	(286,090)	(249,750)
Sale of General Capital Assets	0	0	250
Net Change in Fund Balance	(30,641)	(265,641)	411,375
FUND BALANCE-Beginning	720,377	720,377	720,377
FUND BALANCE-Ending	\$689,736	\$454,736	\$1,131,752

The accompanying notes to supplemental information
are an integral part of this schedule.

Variance with Final Budget- Positive (Negative)
\$4,368
26,705
(250)
501
702
21,938
3,028
20,647
52
57,723
161
24
376,232
3,137
10,951
101
526,020
640,426
36,340
250
677,016
0
\$677,016

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP), except that capital outlays are reported separately in the GAAP statements, but are reported in the respective budgetary functions in the budgetary statements.

CITY OF TEA
SCHEDULE OF EXPENDITURES OF FEDERAL FUNDS
FOR THE TWO YEARS ENDED DECEMBER 31, 2009

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2008	Expenditures 2009
Department of Agriculture:			
Direct Federal Funding:			
S. D. Rural Development:			
Water and Waster Disposal Loans and Grants (Note 2)	10.770	\$649,053	\$353,397
Department of Justice:			
Indirect Federal Funding:			
SD Department of Corrections, Bulletproof Vest Program	16.607	0	250
Environmental Protection Agency:			
Indirect Federal Funding:			
SD Department of Environment and Natural Resources Capitalization Grants for Clean Water State Revolving Funds (Federal Portion)	66.458	32,000	0
Department of Health and Human Services:			
Indirect Federal Funding:			
SD Department Transportation: Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	1,597	0
GRAND TOTAL		\$682,650	\$353,647

NOTE 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: This represents a Major Federal Financial Assistance Program.

CITY OF TEA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the basic financial statements except for the Component Unit, which was not audited.
- b. A significant deficiency and material weakness was disclosed by the audit. It is reported in Section 2, Finding Number 2009-01.
- d. Two instances of noncompliance were noted by the audit. These are reported in Section 2, Finding Number 2009-02.
- e. An unqualified opinion was issued on compliance for major programs.
- f. Audit findings required to be reported under Section .510 (a) of OMB Circular A-133 are listed below as Findings Number 2009-01, 2009-02 and 2009-03.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
Water and Waste Disposal	
Loans and Grants	10.770

- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The entity was not qualified as a low risk auditee as described in Section .530 OMB Circular A-133.

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2009-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in the revenue, expenditure and payroll functions.

CITY OF TEA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

CRITERIA: To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

CITY RESPONSE: The City Officials agree with this comment. The City Council and Mayor are responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Tea which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The City is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll functions continues to exist.

FINDING NUMBER 2009-02:

Annual financial reports were filed late for the years ending December 31, 2008 and 2009.

CRITERIA: South Dakota Codified Law (SDCL) 9-22-21 requires the financial officer to report to the governing board at the first meeting in March each year with a set of financial data commonly known as an "Annual Report".

POSSIBLE ASSERTED EFFECT: Management does not receive financial information on a timely basis, resulting in a lessened ability to make sound decisions.

RECOMMENDATION: Annual reports should be prepared and filed on a timely basis in accordance with SDCL 9-22-21.

CITY OF TEA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2009

2. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2009-03:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2009-01 above for further explanation.

Major Federal Programs Affected: See 1 g above. All programs treated as majors were affected.

Compliance requirement affected: Allowable costs/cost principles.

POSSIBLE ASSERTED EFFECT: Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION: Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

CITY RESPONSE: The City Officials agree with this comment. The City Council and Mayor are responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Tea which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The City is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll functions continues to exist.

CITY OF TEA
SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2007-01 and 2005-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1995.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.

FINDING NUMBER 2007-02:

Annual reports were filed late, in violation of SDCL 9-22-21.

CURRENT STATUS:

The annual reports for 2008 and 2009 were filed earlier than 2007, but were still late, as defined by SDCL 9-22-21.